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COLONIAL STORES

INCORPORATED

Annual Report

FOR THE YEAR ENDED DECEMBER 27th

1947

MRB
Corp. File

Financial Facts at a Glance

	FISCAL YEAR 1947	1946
NUMBER OF STORES IN OPERATION	384	410
Supermarkets	170	162
Conventional Stores	214	248
SALES	$159,509,376	$126,555,327
An increase of 26% over 1946		
NET EARNINGS	2,403,471	1,526,393*
Per Dollar of Sales	1.5¢	1.2¢*
EARNED PER SHARE OF COMMON STOCK	3.70	2.28*
DIVIDENDS PAID	1,120,266	907,875
Per Share Preferred	2.00	2.00
Per Share Common	1.62½	1.28⅛
EARNINGS RETAINED IN BUSINESS	1,283,036	617,333*
CURRENT ASSETS	17,477,722	14,953,287
CURRENT LIABILITIES	5,522,792	5,338,167
WORKING CAPITAL	11,954,930	9,615,120
CURRENT ASSETS PER ONE DOLLAR OF CURRENT LIABILITIES	3.16	2.80
3% DEBENTURES OUTSTANDING	5,750,000	3,250,000
NET WORTH	9,907,570	8,684,534
Capital Paid in by Stockholders and Reinvested Earnings		

Summarized from the financial statements on pages 13, 14, 15 and 16.

*After setting aside $600,000 reserve for possible future inventory price declines.

"Upon the retirement of Hunter C. Phelan (left) on December 27, 1947, Scott W. Allen (right), executive vice president, assumed the presidency of the Company."

The President's Report

Norfolk, Virginia
March 1, 1948

To the Stockholders of COLONIAL STORES INCORPORATED:

In 1947, Colonial continued its progress with record sales, record earnings and a strengthened financial position. In presenting this report of the year's operations, I wish to acknowledge the constructive leadership of my predecessor, Hunter C. Phelan, who has contributed so much to the successful development of our Company.

SALES:

Sales for the year ended December 27, 1947, were $159,509,376, compared with $126,555,327 for the preceding year—an increase of 26.04%. While a large part of this gain is attributable to higher prices, the sustained increase in annual sales volume reflects the growing popularity of Colonial in the territory we serve.

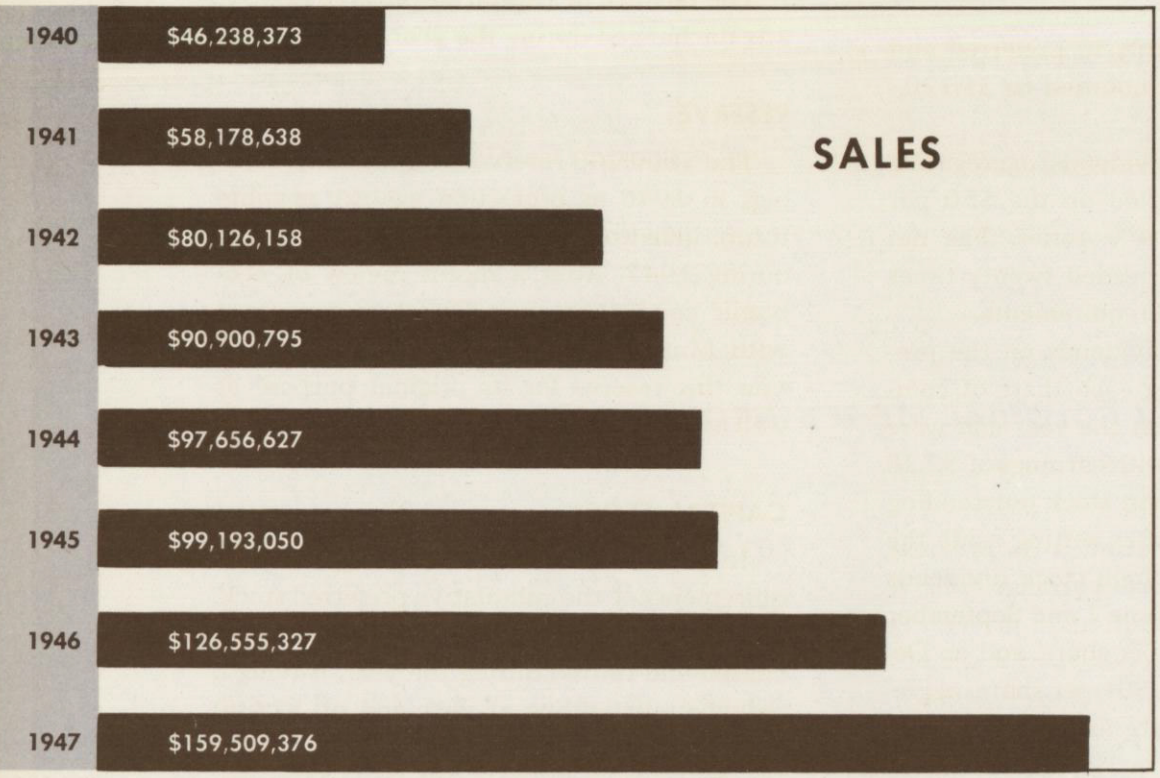
PROFITS:

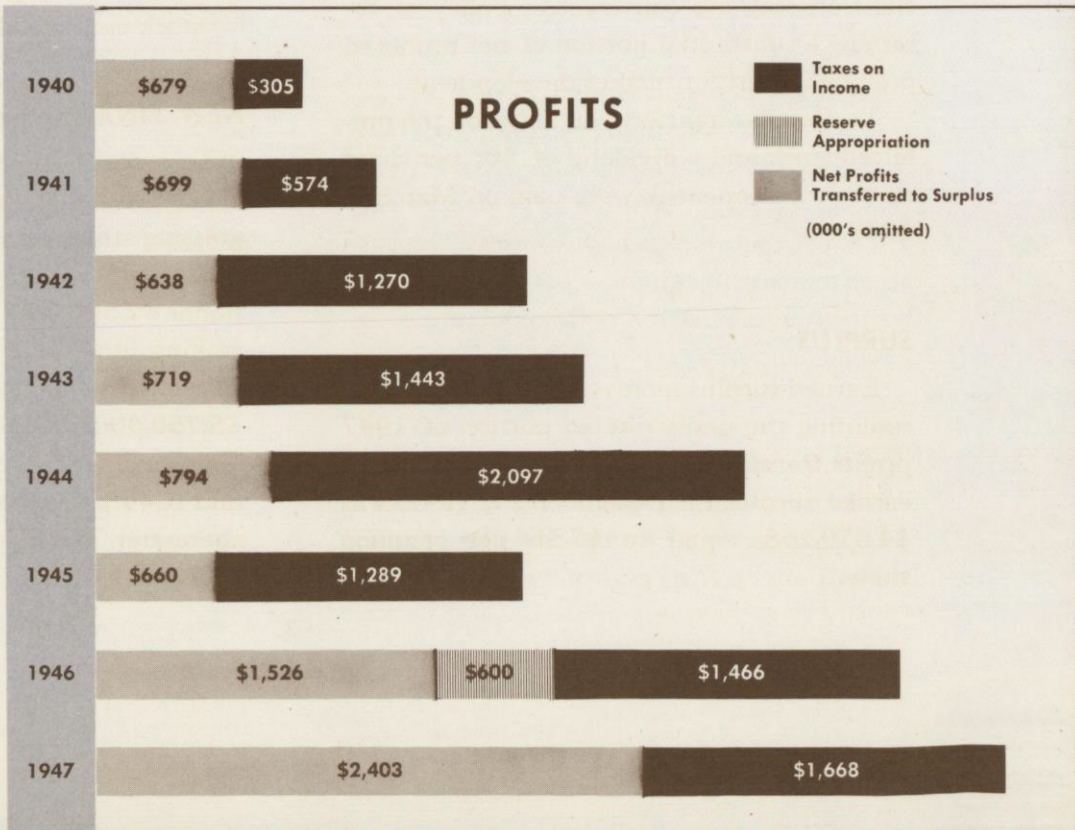
Net profits for the year were $2,403,471, or approximately 1.5¢ on each dollar of sales. In 1946, after setting aside a reserve of $600,000 for possible future inventory price declines, net profits were $1,526,393, or 1.2¢ on each dollar of sales. Before setting aside this reserve, profits were equivalent to 1.7¢. This decline in net profit margin resulted principally from the Company's earnest endeavor to absorb in its selling prices part of the increases in wholesale costs, particularly with respect to meat, thus lessening the impact of continually rising food prices on the consumer.

Total operating expenses in dollars were substantially higher than in the previous year, due to rising prices for materials and supplies, higher service charges, and wage increases. Notwithstanding this heavy increase in expenses, their ratio to sales was reduced as a result of the larger sales volume.

TAXES ON INCOME:

Estimated Federal and state taxes on income in 1947 were $1,667,907, or 41% of your Company's operating profits. This is equivalent to $2.70 on each share of common stock.


SALES
1940
$46,238,373
1941
$58,178,638
1942
$80,126,158
1943
$90,900,795
1944
$97,656,627
1945
$99,193,050
1946
$126,555,327
1947
$159,509,376


PROFITS
Taxes on Income
Reserve Appropriation
Net Profits Transferred to Surplus
(000's omitted)
1940
$679
$305
1941
$699
$574
1942
$638
$1,270
1943
$719
$1,443
1944
$794
$2,097
1945
$660
$1,289
1946
$1,526
$600
$1,466
1947
$2,403
$1,668

DIVIDENDS:

Dividend disbursements to preferred and common stockholders amounted to $1,120,-266.

Regular quarterly dividends aggregating $2.00 per share were paid on the $50 par value preferred stock, 4% series. The net earnings for the year exceeded twenty times preferred stock dividend requirements.

After provision for dividends on the preferred stock, earnings for each share of common stock outstanding at the year end were $3.70, which compares with earnings of $2.28 for each share of common stock outstanding at the close of 1946, after setting aside the $600,000 reserve. Common stock dividends were paid on March 1, June 1 and September 1 at the rate of 37½¢ per share, and on December 1 at the rate of 50¢ per share, aggregating $1.62½ per share as compared with $1.28⅛ on each share in 1946.

The dividend distribution to common stockholders in 1947 is in accordance with the Corporation's conservative policy of retaining a substantial portion of net profits to provide in part for further development.

The regular quarterly dividend on the preferred stock and a dividend of 50¢ per share on the common stock were paid on March 1, 1948.

SURPLUS:

Earned surplus increased $1,283,036, representing the undistributed portion of 1947 profits transferred to surplus. The balance in earned surplus on December 27, 1947, was $4,670,268, equal to $7.56 per common share.

The balance of capital surplus, $812,582, was unchanged during the year.

RESERVE:

The $600,000 reserve set aside from earnings in 1946 as protection against possible future inventory price declines was not used during 1947. After a recent review of economic conditions, your Directors concurred with Management's recommendation to retain this reserve for its original purpose as well as for other contingencies.

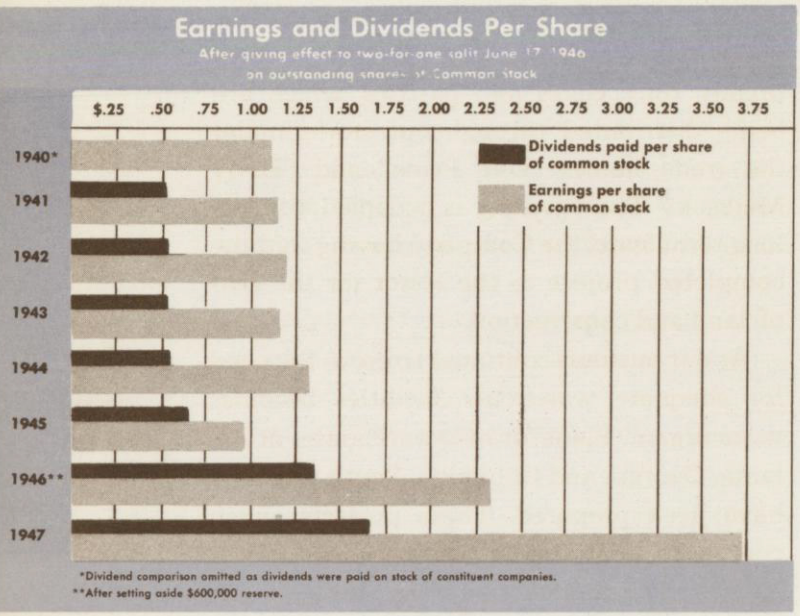
CAPITAL STOCK:

In accordance with the sinking fund requirements of the cumulative preferred stock, 4% series, twelve hundred shares were purchased and retired during the year, leaving a balance outstanding at year end of 57,600 shares. In addition, two hundred shares were purchased in anticipation of the 1948 sinking fund requirements.

No other changes in the Company's capital stock occurred during the year.

NEW FINANCING:

In order to provide the additional monies needed to finance partially our steadily progressing stores development program and for other working capital requirements, an additional $2,500,000 principal amount of 3% sinking fund debentures were sold privately to an institutional investor, increasing to $5,750,000 the total amount outstanding. This indebtedness matures $100,000 in 1948 and 1949, and in increasing amounts annually thereafter. The balance, $1,750,000, matures on April 1, 1963.


Earnings and Dividends Per Share
After giving effect to two-for-one split June 17, 1946 on outstanding shares of Common Stock
$.25 .50 .75 1.00 1.25 1.50 1.75 2.00 2.25 2.50 2.75 3.00 3.25 3.50 3.75
1940*
1941
1942
1943
1944
1945
1946**
1947
Dividends paid per share of common stock
Earnings per share of common stock
*Dividend comparison omitted as dividends were paid on stock of constituent companies.
**After setting aside $600,000 reserve.

WORKING CAPITAL:

Net working capital increased $2,339,810 and amounted to $11,954,930 at year end. Current assets per one dollar of current liabilities increased from $2.80 at the close of 1946 to $3.16 at the end of 1947. The increase in working capital and the improvement in ratios results from the retention of part of the proceeds of the new financing and undistributed surplus earnings.

EXPENDITURES FOR CAPITAL ASSETS; DEPRECIATION AND MAINTENANCE CHARGES:

The Company expended $1,799,065 for new fixtures and equipment in stores and plant facilities.

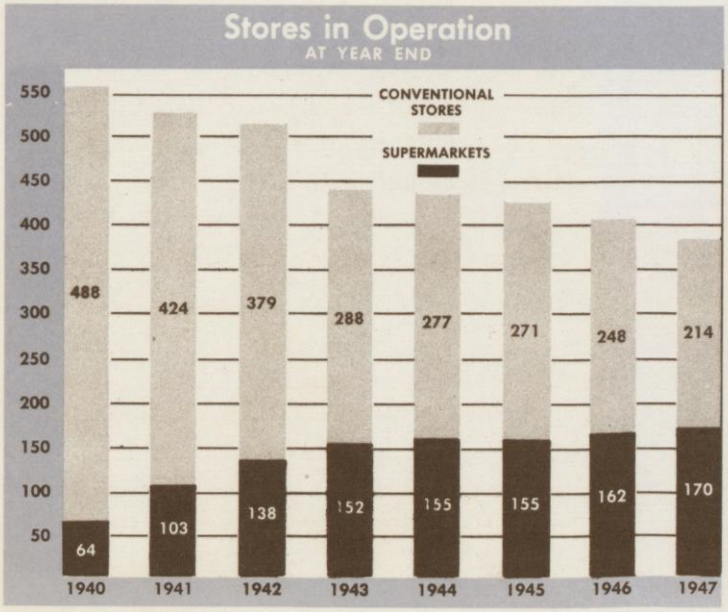
The sum of $542,333 was provided from earnings for depreciation and amortization of property, plant and equipment. In addition, $1,446,789 was spent for maintenance and upkeep of our stores and service equipment.

INVENTORIES:

Inventories at the close of 1947 amounted to $11,857,425, compared with $10,836,118 at the end of 1946. Despite the increased requirements of our expanding business, our year end inventories did not substantially exceed those at the close of the previous year. The dollar increase resulted almost entirely from higher wholesale prices.

STORES DEVELOPMENT:

Three hundred and eighty-four stores were in operation at the close of 1947, compared with four hundred and ten at the end of the previous year.



During the year, your Management has actively pursued the development of the Company's stores system by opening eight new supermarkets and remodeling twelve. A number of additional supermarkets are now in varying stages of construction and are expected to be in operation during the early months of 1948. It is our intention to complete the program initiated several years ago by opening new supermarkets as rapidly as, and to the extent that, building costs and other conditions will permit.

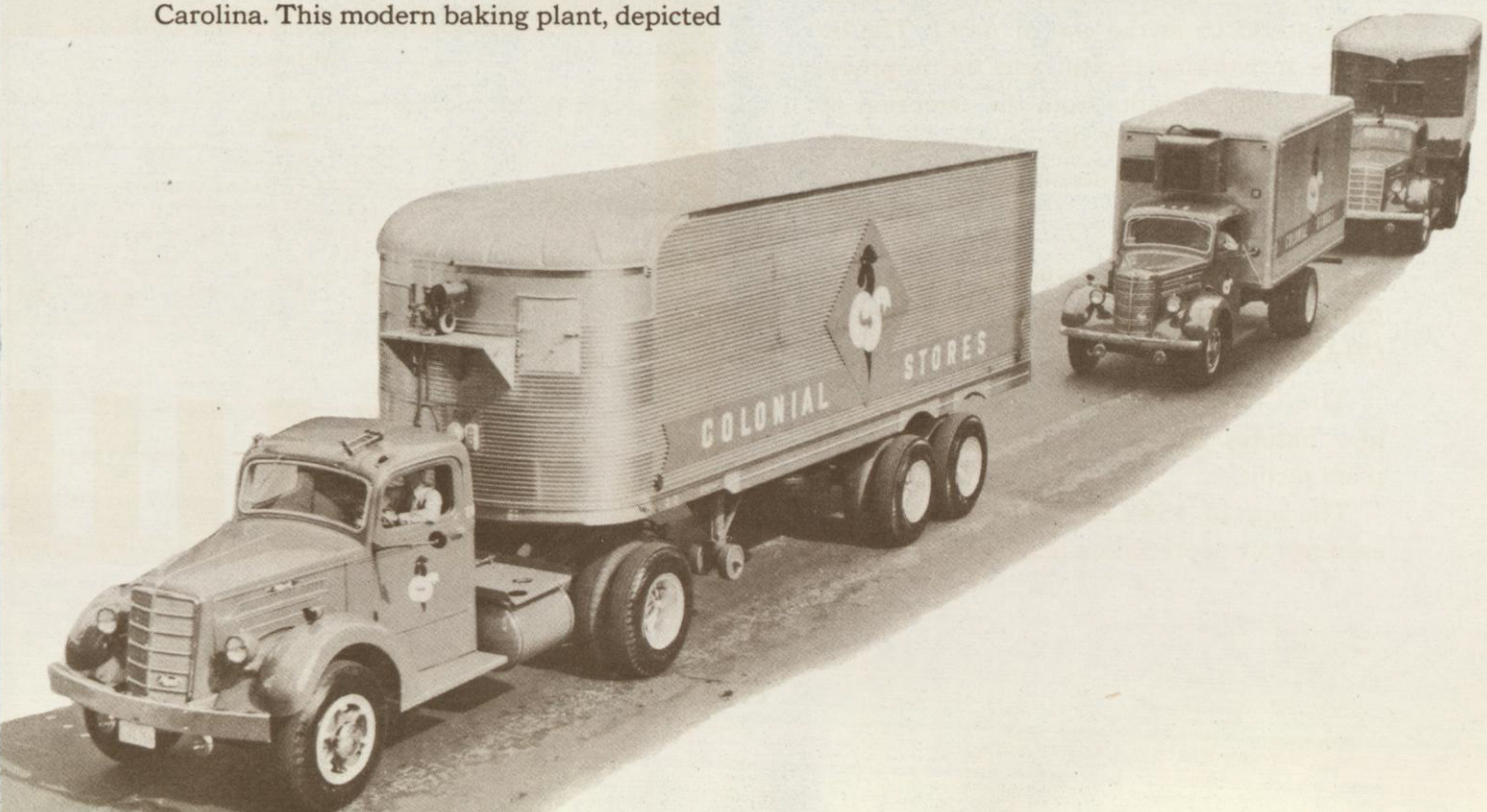
Of the three hundred and eighty-four stores in operation at the close of 1947, one hundred and seventy were large supermarkets and two hundred and fourteen were small conventional stores. Of this latter class, fifty-five are self-service units, an increase of twenty-seven over the previous year.

PROPERTIES AND EQUIPMENT:

In September 1947, operations were begun in Colonial's new bakery at Charlotte, North Carolina. This modern baking plant, depicted for you on pages 8 and 9 of this report, is designed to produce the highest quality breads, rolls, cakes and pastries, which are being distributed through our stores under the trade names "Our Pride" and "Dolly Madison." The property is occupied under a long term lease, the Company having sold the completed project to the lessor for the cost of land and construction.

As our business continues to grow, the need for adequate warehouse facilities becomes more urgent. Plans for new warehouses at Atlanta, Georgia and Columbia, South Carolina have been prepared. These projects, when completed, will also be occupied under lease. They will be undertaken when building costs justify their construction and satisfactory leasing arrangements have been made.

Substantial replacements of over-age stores, plant and transportation equipment were accomplished during the year. As a result, our stores and other equipment have been restored to a high standard of efficiency.



The President's Report

PERSONNEL:

Your Company's most valuable asset is, as it has always been, the group of men and women who comprise the Colonial Family. Their cooperation, loyalty and efficiency throughout the years have made our progress possible. The Company appreciates and recognizes their contribution by compensating them on the highest basis consistent with sound operations. In furtherance of that principle, substantial wage increases have been granted during the year, resulting in continued improvement in the income of all groups of employees.

In addition, a new incentive compensation plan was instituted for our stores department managers and superintendents, who make a major contribution to our successful operations. This plan, which was adopted only after extensive studies indicated its soundness and stimulating effect, has been enthusiastically received.

The training schools organized in 1946 have accomplished excellent results. During the year, they provided refresher instruction for a total of eight hundred and seventy-eight men—eighty-eight superintendents, five hundred and ninety-two stores department managers, and one hundred and ninety-eight senior clerks. In 1948, it is planned to provide courses for clerks who have demonstrated the necessary qualifications and who represent potential managers.

At a series of fifteen employee meetings held this past fall in nine key cities in our territory and attended by more than five thousand Colonials, it was my privilege to present service award pins, representing five, ten and fifteen years of continuous service, to five hundred and sixty-five members of our organization, and to welcome twenty-seven loyal Colonials into the ranks of our Twenty Year Service Club. This increased the membership of that select circle to two hundred and forty-three. These employee service award meetings are attended by all the officers of your Company, and are always a source of reassurance and inspiration.

At a series of fifteen employee meetings held in principal cities in the Company's territory, 27 more Colonials joined the ranks of our Twenty Year Service Club, bringing total membership to 243. In addition, 565 received five, ten and fifteen year service insignia.

The President's Report

In 1947, 878 Colonial supervisors, store department managers and senior clerks received refresher courses in the Company's Meat and Produce Merchandising training schools.

EMPLOYEES' RETIREMENT PLAN:

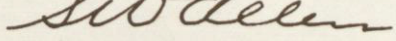
It has long been our earnest desire to provide the benefits of a retirement plan for the men and women who, over long periods of years, contribute greatly to our Company's welfare. Such benefits have already been made available to employees by most of the other major companies in our industry. Under the plan proposed for Colonial, all full time employees who have attained age thirty, and have given the Company five years of service, will be eligible to participate. At the present time, there are approximately eight hundred employees eligible under the plan. On the basis of their present ages and compensation, the Company's annual contribution for a period of twenty years is estimated by our actuary at $254,000 before income taxes, or $150,000 after income taxes at present rates. At the end of the twenty year period, it is estimated that the annual cost will be substantially reduced.

It is the judgment of your officers and directors that the adoption of the proposed employees' retirement plan will serve the best interests of the Company and its stockholders.

THE OUTLOOK:

Operating costs in all phases of our business have substantially increased. So far, we have been able to absorb these increased costs without adversely affecting our net profit results or sacrificing Colonial's well known *"Courtesy—Satisfaction."*

Through the steady development of new and modern stores and service facilities, the utilization of more efficient equipment, the initiation of more economical distributive methods, and the intensive education of our personnel through tested training courses, we of Colonial plan to bring the benefits of low cost food distribution to more and more people in the territory we serve.



President.

Architect's drawing of the new Colonial Stores Daylight Bakery at Charlotte, North Carolina, which commenced operations on September 15, 1947.

Of steel structure with reinforced concrete foundation, the building, which is constructed of buff and red brick, measures 100 feet wide by 275 feet long, and has a floor area of 30,000 square feet, part of which, on the second floor, is devoted to offices.

Lined throughout with cream tile to meet all sanitary requirements, this newest addition to Colonial's service facilities has been provided with the most modern and efficient baking equipment and has a production capacity of 1000 pounds of cake per hour and 3000 pounds of bread per hour.

It is now servicing all of our stores in both North and South Carolina and approximately 75 stores in north Georgia.

r in Carolina

NEW BAKING PLANT FOR

COLONIAL STORES, INC.

CHARLOTTE, NO. CAROLINA

Colonial Stores • Incorporated

301-323 DUNMORE STREET, NORFOLK, VIRGINIA

DIRECTORS

*Scott W. Allen	James W. Moss	*Ellis D. Slater
John O. Chiles	*Jansen Noyes	**Russell B. Stearns
*Edward K. Dunn	*Hunter C. Phelan	John Twohy, II
John M. Foster	Roger Preston	C. T. Williams, Jr.
Robert M. Hanes	Joseph Seitz	

*Executive Committee
**Chairman of Executive Com.

OFFICERS

Scott W. Allen	*President*
Joseph Seitz	*Executive Vice President*
J. W. Wood	*Vice President*
W. C. Moseley	*Vice President*
T. W. Kehoe	*Assistant to the President*
W. C. Pender	*Secretary*
J. B. Pollard	*Treasurer*

AUDITORS — Peat, Marwick, Mitchell & Co.

TRANSFER AGENTS — Bankers Trust Company, New York, N. Y.
Wachovia Bank and Trust Company, Raleigh, N. C.

REGISTRARS — Chemical Bank and Trust Company, New York, N. Y.
First-Citizens Bank and Trust Company, Raleigh, N. C.

TRUSTEE *(Under Bond Indenture)* — The First National Bank, Atlanta, Ga.

FINANCIAL AND STATISTICAL STATEMENTS

PEAT, MARWICK, MITCHELL & Co.

NEW YORK
ATLANTA MILWAUKEE
BOSTON MINNEAPOLIS
CHARLOTTE NEW ORLEANS
CHICAGO NEWARK
CLEVELAND PHILADELPHIA
DALLAS PITTSBURGH
DENVER PORTLAND
DETROIT ST. LOUIS
GREENSBORO SALT LAKE CITY
HOUSTON SAN FRANCISCO
INDIANAPOLIS SEATTLE
KANSAS CITY TULSA
LOS ANGELES WASHINGTON
MEMPHIS WORCESTER

CANADA MEXICO
GREAT BRITAIN GUATEMALA
EUROPE COSTA RICA
CUBA SOUTH AMERICA

THE FIRST NATIONAL BANK BUILDING
ATLANTA 3, GEORGIA

ACCOUNTANTS' REPORT

To the Board of Directors,
Colonial Stores Incorporated,
Norfolk, Virginia.

We have examined the balance sheet of Colonial Stores Incorporated as of December 27, 1947 and the statements of profit and loss and surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards and included all procedures which we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of Colonial Stores Incorporated at December 27, 1947 and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Atlanta, Georgia,
February 11, 1948.

Statements of Profit and Loss

For the Fiscal Years ended December 27, 1947 and December 28, 1946

	1947	*1946*
Net sales	$159,509,376	$126,555,327
Cost of goods sold, including certain occupancy and buying expenses	134,898,440	106,564,643
Selling, general and administrative expenses, exclusive of certain occupancy and buying expenses	19,892,823	15,893,930
Provision for depreciation and amortization of property, plant and equipment	542,333	425,165
	155,333,596	122,883,738
Operating Profit	4,175,780	3,671,589
Other Income (gain on disposal of capital assets, interest, dividends and sundry receipts)	30,825	25,309
	4,206,605	3,696,898
Income Deductions:		
Interest on 3% sinking fund debentures (including amortization of debt expenses)	120,777	102,122
Other interest	14,450	2,082
	135,227	104,204
Net Profit before Provision for Taxes on Income	4,071,378	3,592,694
Provision for Taxes on Income:		
Federal	1,497,407	1,304,501
State	170,500	161,800
	1,667,907	1,466,301
Net Profit for Year	2,403,471	2,126,393
Appropriation to reserve for possible future inventory price declines	—	600,000
Balance transferred to Earned Surplus	$ 2,403,471	$ 1,526,393

(See accompanying notes to financial statements)

ASSETS	December 27, 1947	December 28, 1946
Current Assets:		
Cash in banks and on hand	$ 4,651,117	$ 3,729,290
Amount receivable under sales agreements for properties under construction	428,264	—
Accounts receivable:		
Claims, allowances and other trade receivables	371,589	262,156
Insurance claims and miscellaneous receivables (including officers and employees—1947, $14,337; 1946, $16,707)	29,845	29,955
	401,434	292,111
Less reserve for doubtful accounts	11,204	11,155
	390,230	280,956
Inventories (note 1):		
Stores and markets	4,834,504	4,853,812
Warehouses and bakeries	6,501,709	5,630,176
Supplies	521,212	352,130
	11,857,425	10,836,118
Insurance, taxes, licenses, etc. paid in advance	150,686	106,923
Total Current Assets	17,477,722	14,953,287
Special Funds:		
Cash in self-insurance fund	71,853	55,841
Sinking fund for retirement of cumulative preferred stock, 4% series (1947—200 shares, at cost, to be credited against 1948 sinking fund requirements; 1946—cash)	9,200	141
	81,053	55,982
Investments:		
Cash surrender value of life insurance policies (face amount $317,500)	148,436	141,103
Investment in common stock of National Food Products Corporation (affiliated company)—at value determined at date of merger as of December 19, 1940 (quoted market value—1947, $71,595; 1946, $58,275)	7,992	7,992
Miscellaneous	2,535	691
	158,963	149,786
Property, Plant and Equipment—at cost:		
Land	76,757	55,884
Buildings	102,614	96,124
Fixtures and equipment	5,777,257	4,721,226
Transportation equipment	975,909	807,849
Improvements to leased premises	288,374	183,585
	7,220,911	5,864,668
Less reserves for depreciation and amortization	3,255,792	3,152,819
	3,965,119	2,711,849
Unamortized Funded Debt Expenses	69,356	57,636
Goodwill and Leaseholds—at nominal amount	2	2
	$21,752,215	$17,928,542

*December 28, 1946 figures adjusted to give effect to change in classification of prepaid expenses to conform with treatment thereof at December 27, 1947

LIABILITIES	December 27, 1947	December 28, 1946
Current Liabilities:		
Accounts payable—trade	$ 3,110,999	$ 3,426,812
Taxes, etc. withheld from employees' compensation	248,369	176,668
Accrued liabilities:		
Salaries and wages	225,061	167,045
Taxes (other than taxes on income)	111,308	108,589
Interest	41,589	23,774
Miscellaneous	68,047	20,693
	446,005	320,101
Provision for taxes on income	1,617,419	1,414,586
Sinking fund instalment on 3% debentures, due in 1948	100,000	—
Total Current Liabilities	5,522,792	5,338,167
3% Sinking Fund Debentures (payments due $100,000 in 1948 and 1949 and in increasing amounts annually thereafter; balance, $1,750,000, due April 1, 1963)	5,750,000	3,250,000
Less current liability for 1948 instalment	100,000	—
	5,650,000	3,250,000
Reserves:		
For self-insurance of minor risks (contra)	71,853	55,841
For possible future inventory price declines and other contingencies	600,000	600,000
	671,853	655,841
Capital Stock and Surplus:		
Capital stock:		
Cumulative preferred stock of $50 par value per share (note 2):		
Authorized, 100,000 shares—issuable in series		
Outstanding—4% series—1947, 57,600 shares; 1946, 58,800 shares	2,880,000	2,940,000
Common stock of $2.50 par value per share:		
Authorized, 1,000,000 shares		
Outstanding, 617,888 shares	1,544,720	1,544,720
Surplus:		
Capital surplus	812,582	812,582
Earned surplus (note 3)	4,670,268	3,387,232
	5,482,850	4,199,814
	9,907,570	8,684,534
	$21,752,215	$17,928,542

See accompanying notes to financial statements

Statement of Surplus

For the Fiscal Year ended December 27, 1947

CAPITAL SURPLUS

Balance as of December 28, 1946 and December 27, 1947 .	$ 812,582

EARNED SURPLUS

Balance as of December 28, 1946		$3,387,232
Net profit for the year		2,403,471
		5,790,703
Deduct:		
Cash dividends paid:		
Cumulative preferred stock, 4% series—$2.00 per share	$ 116,198	
Common stock—$1.625 per share	1,004,068	
	1,120,266	
Premium paid on 1,200 shares of cumulative preferred stock, 4% series, retired through sinking fund	169	1,120,435
Balance as of December 27, 1947		$4,670,268

NOTES TO FINANCIAL STATEMENTS

(1) Inventories:

Inventories of merchandise in warehouses, bakeries and retail markets represent physical inventories priced at the lower of cost or market, cost being determined by the first-in, first-out method and market by current replacement cost. Stores inventories have been determined on the basis of centrally controlled perpetual inventory records of the retail selling value of merchandise at each store, less a percentage calculated to reduce such retail value to the lower of cost or market. The amounts shown by the perpetual inventory controls are substantiated by physical inventories at retail taken periodically throughout the year. Supplies are stated at cost.

(2) Capital Stock:

(a) Holders of the cumulative preferred stock, 4% series, are entitled to preferences in liquidation or redemption in the following amounts together with, in each case, accrued unpaid dividends thereon: voluntary liquidation or redemption on or before September 1, 1950, $52.50 per share (aggregate $3,024,000), such price thereafter diminishing fifty cents per share each five-year period until September 1, 1970 after which date the redemption price is $50 per share; involuntary liquidation, $50 per share (aggregate $2,880,000).

(b) The company is obligated to set aside on or before March 1 and September 1 of each year, a sinking fund for the redemption of the cumulative preferred stock, 4% series, in an amount sufficient to redeem 1% of the maximum number of such shares at any time theretofore outstanding. Sinking fund redemptions on or before September 1, 1950 may be effected at $51.25 per share (plus accrued dividends), such price thereafter diminishing twenty-five cents per share each five-year period until September 1, 1970 after which date the redemption price is $50 per share.

(3) Earned Surplus:

(a) The terms of the indenture covering the 3% sinking fund debentures impose certain limitations upon the financial activities of the company, including restrictions as to the payment of dividends on common stock (other than stock dividends) or the purchase or retirement of its capital stock (other than from the proceeds of the sale of other shares of capital stock and other than purchases and retirements through the operation of the preferred stock, 4% series, sinking fund) if such action would impair the specified ratios of current assets to current liabilities, working capital or undistributed earnings beyond stated limits; of the earned surplus at December 27, 1947 an amount of $3,017,618 is thereby restricted.

(b) The terms of issuance of the cumulative preferred stock, 4% series, provide that so long as any such stock remains outstanding the company will not make any distribution to holders of the common stock in excess of net earnings after December 30, 1944, reduced by dividends accrued on preferred stock, plus the sum of $850,000, and unless after giving effect to such transaction, the net current assets will be at least 75% of the sum of (1) the funded indebtedness, and (2) the aggregate involuntary liquidating value of all outstanding preferred stock.

(c) The company has filed claims under the excess profits tax relief provisions of the Internal Revenue Code. No estimate is made as to the amount of tax benefits, if any, which may result therefrom.

Geographical Distribution of Facilities

TOTAL NUMBER OF STORES

AS OF DECEMBER 27, 1947 384

LEGEND

WAREHOUSES

BAKERIES

Quality

to crow about!